

Improving the Competitiveness of Michigan for Air Service

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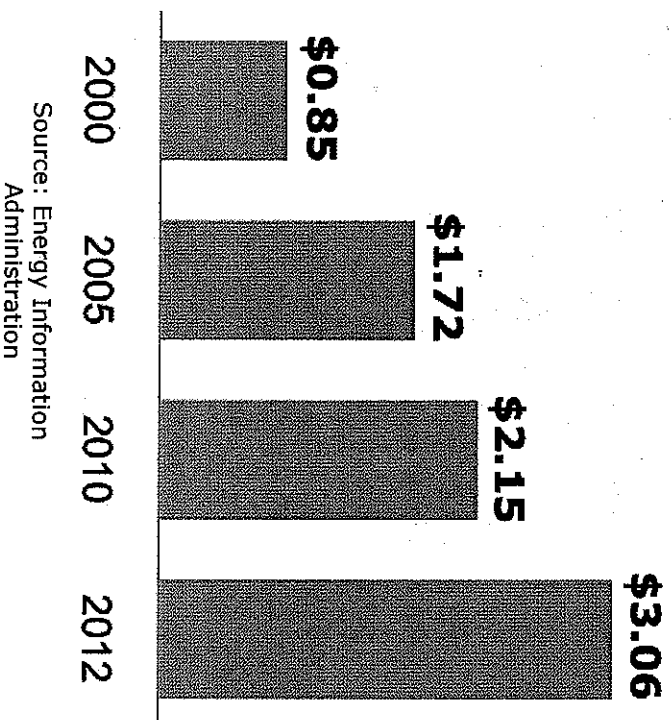
Background on Delta in Michigan

- Delta and Northwest Airlines merged in October 2008
- The combined company has operated in Michigan since 1958 and has operated a hub in Detroit since 1987
- DTW is Delta's 2nd largest hub behind ATL
- Delta operates at 12 of the 17 commercial airports in Michigan
- Delta is the largest carrier at Detroit Metropolitan Wayne County Airport, offering customers more than 535 peak-day departures to a 135 nonstop destinations. With nonstop service to Shanghai and Beijing, China; Seoul-Incheon, South Korea; Tokyo and Nagoya, Japan; Detroit has emerged as a major gateway to Asia for Delta
- Delta has more than 7,500 employees in Michigan, employs another 2,500 through subsidiaries and connection carriers, and helps support over 18,000 jobs at Detroit Metro Airport
- DTW is currently the #3 gateway to Asia in the United States, after ORD and SFO. Well positioned to grow to #1 if the right economic climate can be achieved

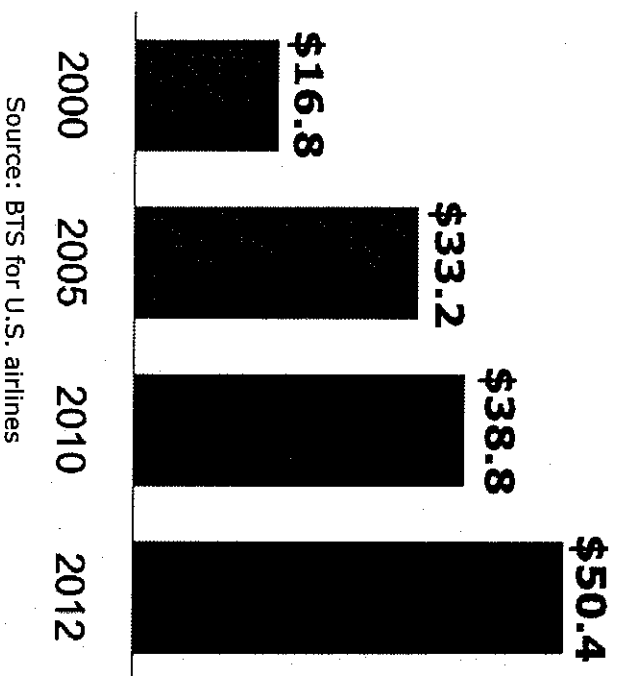
U.S. Airlines Incurred More Than \$50 Billion in Fuel Costs in 2012

Average Spot Price of Jet Fuel Has Risen 260 Percent Since 2000 and 42 Percent Since 2010

Due to Rising Prices . . .
Dollars per Gallon (U.S. Gulf Coast)



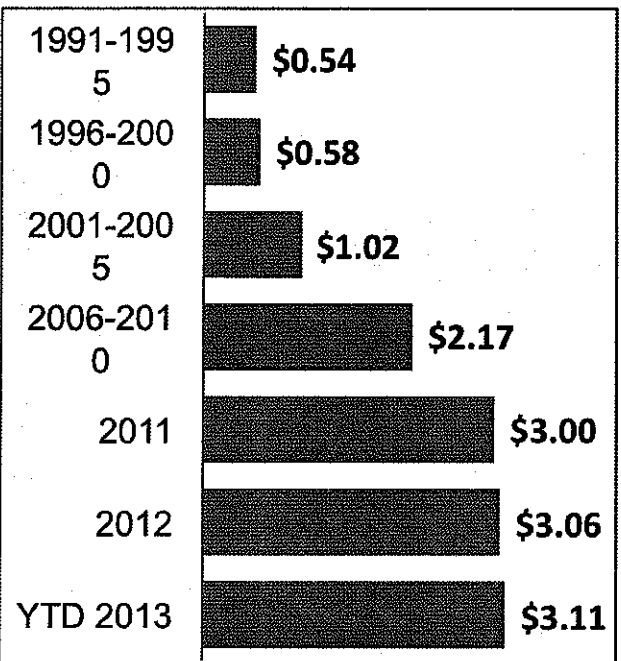
. . . Incurring Higher Costs
Billion U.S. Dollars per Year



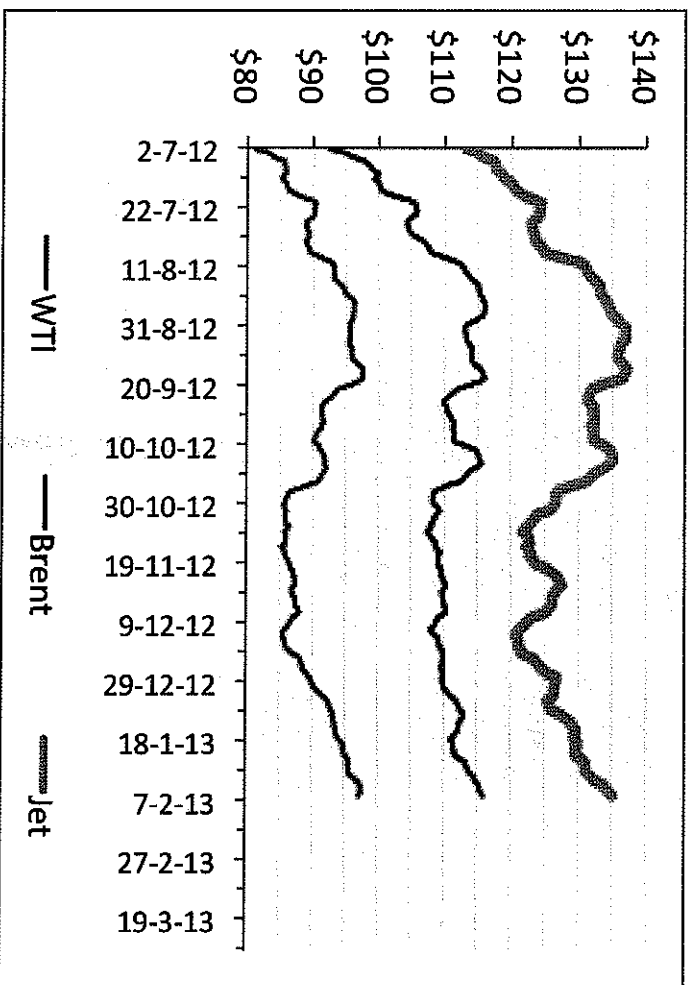
Average Annual Price of Jet Fuel Reached All-Time High in 2012

Continues to Rise into 2013

Price per Gallon (Gulf Coast Jet Fuel)



Price per Barrel (Five-Day Moving Average)



Source: A4A and EIA (for WTI and Brent crude oil and U.S. Gulf Coast jet fuel)

Impact of Fuel on Delta Air Lines

- Jet fuel is Delta's single largest operating expense (about 35% of operating costs, or \$12B)
- From 2011 to 2012, despite aggressive management in the industry, Delta's fuel bill grew from \$11.5 Billion to \$12 Billion
- Every \$1 increase in the cost of a barrel of oil equates to a roughly \$100M increase in the annual cost of fuel
- In recent years, price volatility for fuel has increased dramatically, making planning for fuel cost increasingly difficult
- Delta's fuel management strategy is all encompassing
 - Hedging program
 - Self-management of long term contracts and delivery
 - Aggressive conservation programs both on the ground and in the air
 - Airspace redesign initiatives in partnership with FAA
 - Purchase of oil refinery in Trainer, PA

Memphis a Delta Hub no Longer

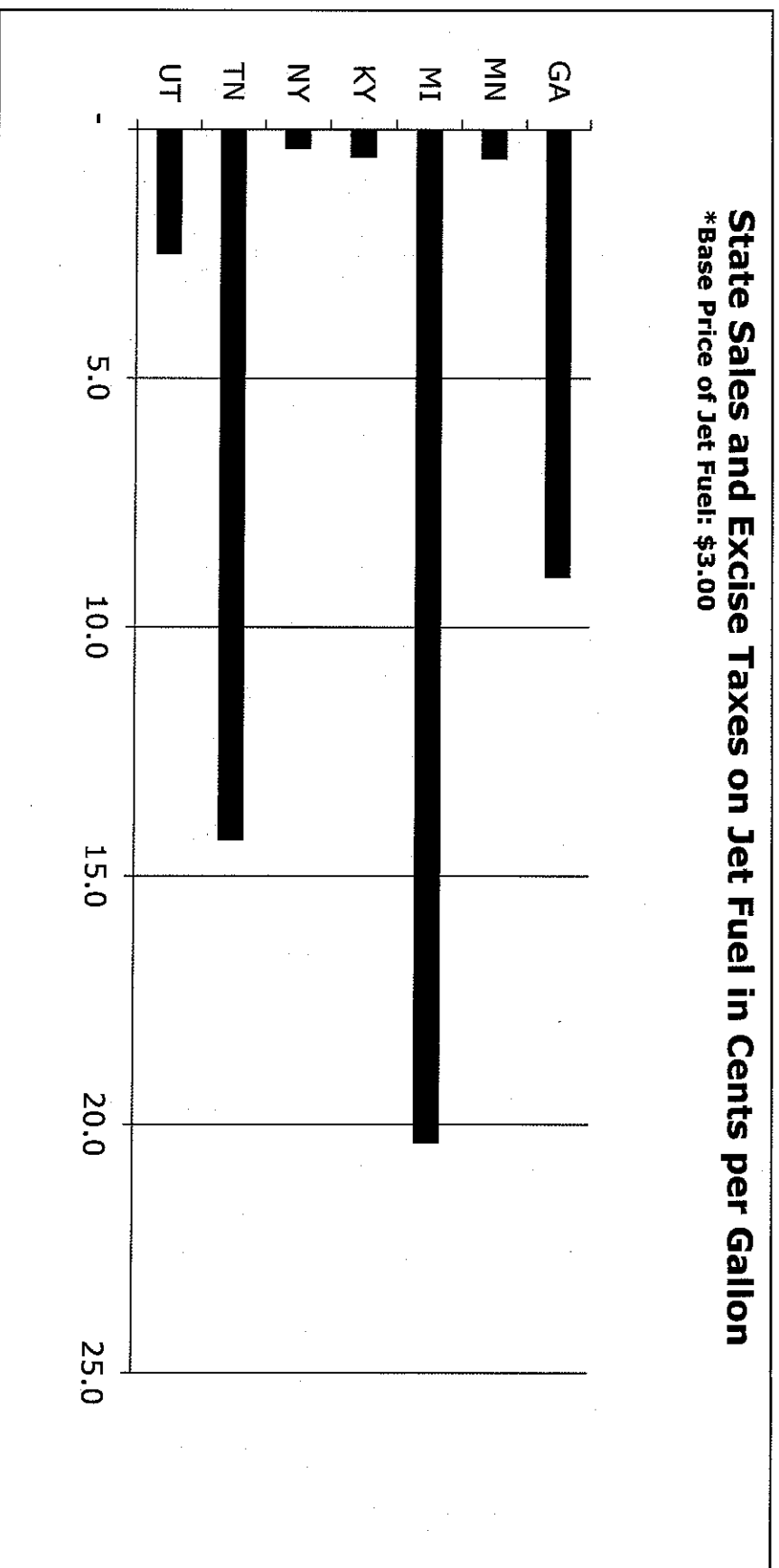
- On June 4, 2013 Delta announced that Memphis will no longer be a hub for Delta Air Lines effective September 2013
- Cutting 230 jobs and only flying 60 flights a day
- Decision was driven by high fuel prices and low demand
 - **WSJ:** Delta to Cut Flights, Jobs at Memphis Hub; Carrier Will Cut Flights and Jobs as High Fuel Costs Hurt Small Hubs' Efficiency
 - *"The problem? High fuel costs have made the 50-seat regional jets that tend to serve such small hubs extremely inefficient. Gil West, Delta's senior vice president of airport customer service and Delta TechOps, a maintenance unit, and Tony Charaf, a Delta senior vice president and chief cargo officer, said in a staff memo seen by The Wall Street Journal that the mix of high fuel costs and inefficient regional jets "have made Memphis unprofitable as a hub."*
- **USA Today:** Delta to pull plug on Memphis hub after Labor Day
- **Bloomberg:** Delta to Drop Money-Losing Memphis as Hub as It Cuts Flights

Fuel Tax Burden in Michigan

Michigan fuel tax rates:

1. Sales tax: 6%
2. Excise tax: 3.0 cents per gallon (cpg), less 1.5 cpg credit for fuel purchased for interstate flights
3. Underground Storage Tank Fee: 0.875 cpg
4. Combined effective rate (at a fuel price of \$3.15 per gallon): 21.3 cpg

MI taxes on jet fuel highest of all Delta hubs



Delta helps Michigan's Economy Soar

When Delta does well, so do our customers, the communities we serve and our employees. In 2012:

- Estimated economic impact of the commercial airline industry in Michigan is \$17.6 Billion or 2.7% of GDP
- Annual customer spend for DTW Delta customers alone is \$2.2 Billion annually both inside and outside the airport, not including airline ticket sales
- Delta activity at DTW generates over \$210 Million in annual tax revenue for the State of Michigan
- Paid out \$372 Million in profit sharing and \$91.2 Million in Shared Rewards to our employees worldwide.
- Over \$42 Million in Detroit profit sharing alone
- Maintained levels of service in Michigan similar to 2011 levels

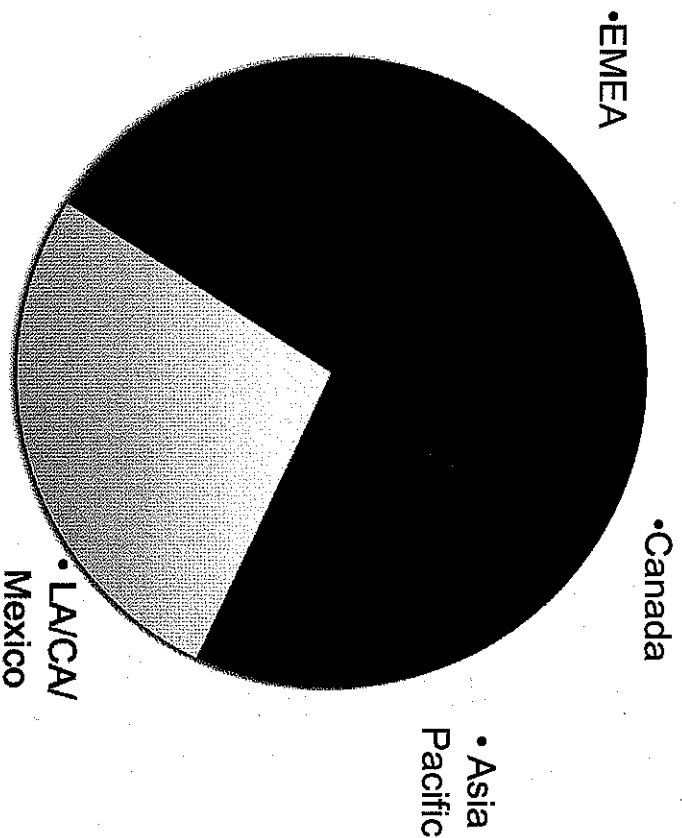
Delta Facilitates Global Commerce For Michigan Businesses

Thousands of Michigan businesses fly Delta

- Delta has 121 Corporate Accounts in Michigan
 - Includes account relationships with most large businesses in the state
- Delta has 4,700 SkyBonus Accounts in Michigan
 - Delta rewards small- and medium-sized companies through the SkyBonus program
 - The company earns SkyBonus points while the traveler simultaneously earns SkyMiles
- Countless other Michigan small companies and independent business people rely on Delta to serve their commercial needs

Delta takes Michigan business around the world

Delta International Corporate Account Trips From Detroit



Fuel Costs Create Tremendous Pressure on Small Community Service

Delta has eliminated less efficient, smaller aircraft from it's fleet (SAABs and 50 seat RJ's) because fuel costs make them uneconomical to fly

Small communities have the least ability to absorb increasing costs; fewer seats to spread the cost over

Small communities suffer the most under high fuel prices

- Cancel CMX and MBL service (2008)
- Converted or continued EAS service in APN, CIU, ESC, IMT & PLN
 - Must have subsidy to help support service in high fuel environment

The support for Essential Air Service markets is capped under new federal law, meaning that there is no room for new EAS markets or for subsidies to increase

- We have to make it work with what we have or we wont be able to continue to service these markets
- Must look for all avenues to keep costs down

Federal Preemption

- Federal law prohibits the expenditure of state and local taxes on aviation fuel (except taxes in effect on December 30, 1987) for non-airport or non-aviation purposes *
- Proposal A increased the then existing 4% sales tax in Michigan by an additional rate of 2% beginning in 1994, and the proceeds are dedicated to state school aid pursuant to the Michigan Constitution
- The statute implementing Proposal A did not exempt aviation fuel, and the 2% tax is inconsistent with federal law
- In 1999, the FAA issued its *Policies and Procedures Concerning the Use of Airport Revenues*, 64 Fed. Reg. 7696
 - State or local taxes on aviation fuel (except taxes in effect on December 30, 1987) are considered to be airport revenue subject to the revenue use requirement. *Policy* at II.B.2.
 - Unlawful revenue diversion is the use of airport revenue for purposes other than the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner and directly and substantially related to the air transportation of passengers or property, when the use is not 'grandfathered' under 49 U.S.C. § 47107(b)(2). *Policy* at II.C.

Reduce MI Sales Tax on Jet Fuel to Improve Competitiveness

- Reduce the sales tax on jet fuel from 6% to 4% to improve the competitiveness of Michigan in aviation
- Michigan would still be the highest tax rate amongst it's hubs, but would improve the competitiveness by reducing the gap between hubs

